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Mexico

Agricultural Situation

Mexico Establishes 2004 Tariffs on Out-of-Quota Corn, Beans, and Dry Milk

2004

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Report Highlights:

In its passage of Mexico's 2004 budget, the Mexican Congress established over-quota tariffs on the few agricultural commodities that are still subject to NAFTA tariffs. These include a 72.6-percent tariff on white corn and a 46.9-percent tariff on dry edible beans. The over-quota volume on dry milk is set at no more than 20 percent of the sum of the 2004 duty-free dry milk quotas, or 26,751 mt; this amount will not be subject to a duty. The over-quota tariff on yellow corn will be determined at a future date by the Ministries of Economy and Agriculture, subject to the supply and demand conditions in the country. These measures are consistent with Mexico's NAFTA obligations.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Mexico [MX1]
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Introduction: This report summarizes an official announcement published in Mexico's "*Diario Oficial*" (Federal Register) on December 31, 2003.

Disclaimer: This summary is based on a *cursory* review of the subject announcement and therefore should not, under any circumstances, be viewed as definitive reading of the regulation in question, or of its implications for U.S. agricultural export trade interest. In the event of a discrepancy or discrepancies between this summary and the complete regulation or announcement as published in Spanish, the latter shall prevail.

FAS/Mexico's Executive Summary: On December 31, 2003, the Secretariat of Treasury and Public Credit (SHCP) published in Mexico's "*Diario Oficial*" (Federal Register) the announcement establishing over-quota tariffs for corn, dry edible beans, and dry milk for 2004. The 2004 over-quota tariffs are as follows: 72.6 percent on white corn and 46.9 percent on dry edible beans. The over-quota volume on dry milk is set at no more than 20 percent of the sum of the 2004 duty-free dry milk quotas, or 26,751 metric tons (mt); this amount will not be subject to a duty. These measures are consistent with Mexico's NAFTA obligations. The decision on the 2004 over-quota tariff for yellow corn will be made jointly by the Ministries of Economy and Agriculture later in 2004 and will be dependent on domestic supply and demand conditions for yellow corn. The announcement also listed the conditions for the allocation of out-of-quota yellow corn import permits (*cupos*).

FAS/Mexico Analysis: The Mexican Congress has traditionally voted annually on what the applied tariffs will be on certain agricultural commodities. In past years, Congress essentially agreed with the Executive Branch's recommendation of low applied tariffs on out-of-quota corn. Past applied tariffs approved by Congress have been approximately 1-2 percent for yellow corn; and 2-3 percent for white corn. However, in 2004, for white corn, Congress approved the 2004 applied tariff for white corn at 72.6 percent – the same as the 2004 NAFTA bound tariff – but a marked departure from past practice. This tariff is NAFTA consistent, but signals that Congress is under political pressure from its agricultural constituents, a vast majority of whom grow white corn. In the case of a shortage of white corn, the determination of such will be made by the Executive Branch in consultation with producer organizations and industrial consumers; the 72.6 percent tariff will apply to white corn, even in the case of a shortage. For 2004 duty-free in-quota amounts for white and yellow corn, please see MX4002.

In the case of yellow corn, which comprises 80-90 percent of all U.S. corn imports into Mexico, FAS/Mexico is of the opinion that the decision to leave the determination of the over-quota amount to the Ministries of Economy and Agriculture is not cause for alarm and may well have been a way for Congress to deflect political pressure on this sensitive issue. The Ministries of Economy and Agriculture have traditionally supported very low applied tariffs for corn and have usually administered the import permit (*cupo*) allocation process based on national supply conditions and the marketing of domestic corn anyway, despite the repeated calls for the same in the *Diario Oficial* announcement. Finally, the federal government also reserves the right to buy the domestic yellow and white corn crop at established prices, in alliance with the private sector.

The announcement also outlines changes to the *cupo* allocation process, the most important of which is that the percentage of domestic corn which industrial consumers must contractually purchase from Mexican corn growers has increased from 10 to 15 percent of their total corn imports of the preceding year (i.e., 2003) and that this must be done in order for those same industrial consumers to be considered eligible to import out-of-quota corn in 2004. Industry sources indicate that government enforcement of this measure is very weak, as it is the Mexican producers themselves – whom the measure is designed to

protect -- who renege on the contracts made with industry, by selling their crops to other purchasers first. It should be noted that this is the first time criteria for over-quota allocations has been announced since the NAFTA quotas first began in 1994. Despite some doubts among industry sources about how the GOM is going to implement these rules, the majority recognize that the publication of these official rules should result in more transparency for industry and importers. Some industry sources stated that the relatively rigorous requirements could result in some government delays in issuing import permits for U.S. corn, due to increased administrative demands on SE. However, given Mexico's historic inability to fully meet its domestic consumption demands for corn, such rules are not necessarily being seen by industry as a trade barrier to U.S. corn imports. The feed industry, for example, believes the new rules will allow them to have a better planning process for their acquisitions and to be more transparent.

For dry beans, Congress approved the 2004 NAFTA applied tariff at 46.9 percent – the same as the 2004 NAFTA bound tariff. This is down from the 2003 NAFTA bound/applied tariff of 58.7 percent. As with corn, the federal government reserves the right to buy the domestic bean crop at established prices, in alliance with the private sector. This is further proof of the Mexican government's intent to buy the domestic bean crop (see MX3143) and to try to assuage internal political pressure from Mexican bean growers. Finally, in cases of emergency, in which additional beans above the quota need to be imported, the Ministries of Economy and Agriculture, in coordination with producer organizations and industrial consumers, will establish criteria certifying the supply shortage and the allocation conditions for out-of-quota dry beans. Government sources indicate that the reason for including such a mechanism for determining supply shortages and allocation conditions is to establish a precedent for future years, when Mexico may be experiencing a dry bean shortage. In the event of such a shortage, the Executive Branch would have the authority to establish lower applied tariffs and volume limits to allow in the extra dry beans needed.

For dry milk, the 2004 over-quota volume for dry milk is set at no more than 20 percent of the sum of the 2004 duty-free quotas (see MX4004 and MX4005) and will not be subject to a duty. The 2004 duty-free quotas are defined as the WTO quota of 80,000 mt and the U.S. NAFTA quota of 53,757 mt (total 133,757 mt). Therefore, the 2004 over-quota tariff for dry milk will be no more than 20 percent of 133,757 mt, which FAS/Mexico calculates at 26,751 mt; this amount will come in duty-free and will be distributed through a mechanism determined by the Ministry of Economy, taking into account industry's participation in the purchase of domestically-produced milk.

Important Dates

- 1. Publication Date:** December 31, 2003
- 2. Effective Date:** January 1, 2004
- 3. Expiration Date:** December 31, 2004

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